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SUBJECT: KAZAKHSTAN - EURASIAN ENERGY COORDINATOR MANN  
DISCUSSES ENERGY TRANSPORT WITH SAMRUK DEPUTY HEAD KABYLDIN

Classified By: Pol-Econ Chief Steven Fagin, Reasons 1.4 (b) and (d)

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SUMMARY  
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¶1. (C) Samruk Deputy Chairman Kairgeldy Kabyldin told visiting Eurasian Energy Diplomacy Coordinator Steven Mann on July 24 that the international oil and gas companies have insisted on ownership stakes in the pipeline portion of the Kazakhstan-Caspian Transportation System (KCTS) -- i.e., the pipeline which will bring crude from the oil fields to Kazakhstan's Caspian coast. President Nazarbayev offered Chevron a lead role in the pipeline, but no final agreement has yet been reached. Kabyldin indicated he believed that the Azeris were slow-rolling bringing the Baku-Supsa pipeline back on line. They have been pressing Kazakhstan to use more expensive transport options, including rail, he claimed. End Summary.

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FORWARD MOVEMENT ON KCTS  
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¶2. (C) Eurasian Energy Diplomacy Coordinator Ambassador Steven Mann met on July 24 in Astana with Kairgeldy Kabyldin, Deputy Chairman of Kazakhstan's Samruk state holding company and former Managing Director of the transport division of Kazakhstan's state oil and gas company, KazMunaiGas (KMG). (Note: Samruk is the 100 percent owner of KMG. End Note.) Kabyldin was accompanied by KMG Vice President Daniyar Berlibayev.

¶3. (C) Kabyldin explained to Mann that Samruk and KMG's priorities in energy transport include expansion of the Caspian Pipeline Consortium (CPC) pipeline, implementation of the Kazakhstan-Caspian Transportation System (KCTS), and the construction of oil and gas pipelines to China -- for which, he noted, the Chinese have provided financial guarantees to the Kazakhstanis. He reminded Mann that Kazakhstan and Azerbaijan had signed an Inter-Governmental Agreement (IGA) on KCTS in August 2007. Negotiations between the two sides on the details of the trans-Caspian segment -- the terminals and the tankers -- are on-going. Kabyldin met in June with SOCAR president Rovnag Abdullayev, with SOCAR and KMG agreeing to set up a joint venture company, each owning 50 percent, to develop the trans-Caspian segment. The Azeris, he said, do not want to give any ownership stakes to the international oil and gas companies.

¶4. (C) The Kazakhstanis, Kabyldin continued, are in discussions with the international companies regarding the pipeline portion of KCTS, which would bring crude from the Tengiz field and later from Kashagan to the Caspian. The Kazakhstanis are ready to guarantee access and specific tariffs to the companies with an agreement that would spell out all of the necessary details, but the companies have insisted on their own ownership shares in the pipeline,

explaining that ownership best ensures their rights over the long-run. Kabyldin admitted that if the companies hold ownership stakes, the funding for the pipeline should come more quickly and easily. Mann said that as far as he knew, the Kazakhstanis had offered Chevron a lead role on the project. Kabyldin responded that President Nazarbayev did, in fact, offer this option to Chevron CEO David O'Reilly in June, at the ceremony for the second generation expansion of TengizChevrOil (TCO), but that no final agreement has yet been reached. He stressed that Kazakhstan and Chevron's interests are largely aligned -- with both wanting to move forward quickly in implementing KCTS and in securing transit access from Baku onward.

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AZERIS SLOW-ROLLING ON BAKU-SUPSA?  
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15. (C) Kabyldin explained that Azerbaijan's priority for transport from Baku onward is BTC first and foremost, followed by railway to the Black Sea and the Baku-Novorossisk and Baku-Black Sea pipelines, including Baku-Supsa. Kazakhstan, however, is particularly interested in the Baku-Supsa pipeline, which remains out of utilization. In fact, Kazakhstan would in the future like to get an ownership share in Baku-Supsa -- a move the Georgians are ready to support. Kabyldin indicated he believed the Azeris are slow-rolling bringing Baku-Supsa back on line, arguing that in the two years it has supposedly been under repair, a whole new pipeline could have been built. "One person whose name you know," he contended, is behind the delays, and that person's interests are so strong that Kazakhstan has been

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pressed to ship 25 million tons of crude by rail rather than using a pipeline. In fact, it costs \$30 per ton to ship crude from Baku to Batumi by rail, in comparison with just \$0.40 per barrel to use the Baku-Supsa pipeline, Kabyldin noted. (Comment: Mann believes that Kabyldin was referring to Baku insider Abdulbari Gozel. End Comment.)

16. (C) Kabyldin explained that the Kazakhstanis are ready to pay a higher price to use Baku-Supsa, though the issue of whether the additional money would be paid to the Azerbaijani government or Baku-Supsa operator AIOC is a sensitive one. The Azeris, he stressed, can not themselves fill both BTC and Baku-Supsa. If they fill BTC, Baku-Supsa will largely be empty. A number of companies operating in Kazakhstan -- including Chevron and ConocoPhillips -- will have extra volumes of Kazakhstani crude that could be shipped through Baku-Supsa.

17. (C) Mann asked Kabyldin which figures below President Aliyev are currently most influential in Azerbaijan's energy sector. Kabyldin responded that in his view, this group would include SOCAR President Abdullayev, Deputy Mezhlis Speaker (and former head of SOCAR's foreign investment division) Valekh Aleskerov, and Energy Minister Natik Aliyev.

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KAZAKHSTAN INTERESTED IN TURKMEN GAS  
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18. (C) KMG Vice President Berlibayev told Mann that Kazakhstan and Turkmenistan have always had good cooperation on gas. Kazakhstan is interested in an off-shore Turkmen gas block that is adjacent to the area in the Caspian where Kazakhstan's "N Block" is located. Mann expressed surprise that Uzbekistan had agreed to a pipeline transiting its territory to send Turkmen gas to China. Berlibayev responded that the Uzbeks had told him they agreed to the pipeline because they never believed it would be built. He added that Turkmen gas head Tachberdy Tagiyev had told the Kazakhstanis that the gas Turkmenistan promised to China is newly-discovered gas, from the right bank of the Amu-Darya river. Kabyldin told Mann that Kazakhstan has an interest in

trans-Caspian gas pipelines as alternative gas routes, but this is a very sensitive issue, as it is important not to irritate Russia or China. (Comment: Kabyldin was apparently stressing Kazakhstan's support for alternative routes as a matter of policy. For the foreseeable future, Kazakhstan will not have meaningful volumes of gas available to supply to a trans-Caspian gas pipeline. End Comment.)  
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